



AUDITOR-GENERAL
SOUTH AFRICA

Deputy Director-General
Limpopo Province
Local Government and Housing
Private Bag X9485
Polokwane
0700

30 November 2010

For attention: Chief Financial Officer

**FINAL REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL STATEMENTS AND
PERFORMANCE INFORMATION OF GREATER SEKHUKHUNE DISTRICT MUNICIPALITY FOR THE
YEAR ENDED 30 JUNE 2010**

1. The above-mentioned final report of the Auditor-General is herewith submitted in terms of section 21(4) of the Public Audit Act, 2004 (Act No. 25 of 2004), read in conjunction with section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996).
2. Until tabled, or published by the Auditor-General, this final report is **not public documents** and should therefore be treated as **confidential**.

Yours faithfully

For AUDITOR-GENERAL

Reference: 60061REG09/10
Enquiries: Muhammed Essa

**REPORT OF THE AUDITOR-GENERAL TO THE LIMPOPO PROVINCIAL LEGISLATURE
AND THE COUNCIL ON THE FINANCIAL STATEMENTS OF GREATER SEKHUKHUNE
DISTRICT MUNICIPALITY**

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I was engaged to audit the accompanying financial statements of the municipality, which comprise the statement of financial position as at 30 June 2010, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages XXX to XXX

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and in the manner required by the Municipal Finance Management Act of South Africa No. 56 of 2003 (MFMA). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of South Africa and section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with the International Standards on Auditing and *General Notice 1570 of 2009*, issued in *Government Gazette No. 32758 of 27 November 2009*. Because of the matters described in the basis for disclaimer of opinion paragraphs, however, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer

Journals

4. The municipality could not provide sufficient appropriate audit evidence to support journal entries amounting to R1 359 894 that were processed in the accounting records during the year relating to the water and sanitation transactions and balances.

There was no system of control over journals on which I could rely for the purpose of my audit. There were also no satisfactory audit procedures that I could perform to obtain reasonable assurance that all journals have been properly recorded. Consequently, I was unable to satisfy myself as to the validity, completeness and accuracy of the accounting records relating to journals and the effect on the account balances or classes of transactions contained in the financial statements.

Provision for bad debts

5. The provision for bad debts amounting to R6 811 833 disclosed in note nine to the financial statements could not be recalculated. The municipality did not consider objective evidence of impairment in estimating appropriate impairment losses in respect of trade and other receivables. I was therefore unable to verify the completeness and valuation of the provision for bad debts.

Grants and subsidies

6. Grant revenue amounting to R281 585 091 has been recognised as part of conditional grants revenue in the financial statements. The conditions of the grants have however not been met and as a result grants and subsidies has been overstated by the said amount.

Property, plant and equipment (PPE)

7. My audit report for the prior year was modified due to lack of sufficient evidence that all journals were accounted for and applicable amounting to R700 423 887 and this matter had not been resolved for the year ended 30 June 2010. My opinion for the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures and the corresponding figures.
8. In the current financial period, I am unable to ascertain the separate value of each unbundled asset as included in the previous year's financial statements. Consequently, the impact on accumulated surplus of prior years in terms of the Standards of Generally Recognised Accounting Practice, GRAP 17: *Property, Plant and Equipment* states that subsequent to initial recognition at cost, an item of property, plant and equipment should be carried at cost less accumulated depreciation and accumulated impairment losses or at a revalued amount less accumulated depreciation and accumulated impairment losses.

9. As disclosed in note four to the financial statements, the corresponding figures for property, plant and equipment have been restated by R19 606 475 in order to address a prior year misstatement. No supporting documentation was available for the restatement. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the rights, completeness and classification of the PPE corresponding figure of R2 773 169.
10. The municipality has not disclosed the change in useful life and the residual value of its property, plant and equipment in their accounting policy as required by the Standards of Generally Recognised Accounting Practice, GRAP 17: *Property, Plant and Equipment* and GRAP 3 - *Accounting policies, changes in accounting estimates and errors*.

Trade and other payables

11. The municipality did not maintain an adequate system to ensure that all retention creditors due year-end are accounted for. Although alternate procedures were performed, I was unable to ensure that all existing retention creditors have been included in the balance of R77 626 336 as disclosed in note 17 to the financial statements. Consequently, the corresponding effect on expenditure as disclosed in the financial statements or the prior year's accumulated surplus could not be determined.
12. The municipality could not provide sufficient appropriate audit evidence to support the trade and other payables balance amounting to R528 448 602. There were no satisfactory alternative audit procedures that I could perform. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the valuation and allocation, existence and completeness of this balance in the financial statements.
13. As disclosed in note 17 to the financial statements, the corresponding figures for trade and other payables have been restated by R4 554 213 in order to address a prior year misstatement. No supporting documentation was available for the restatement. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the rights, completeness and valuation and allocation of the trade and other payables corresponding figure of R60 069 528.

Inventory

14. The municipality did not disclose the amount of inventories recognised as an expense during the period as required by the Standards of Generally Recognised Accounting Practice, GRAP 12: *Inventories*.

Provision for rehabilitation

15. The municipality has could not provide sufficient appropriate audit evidence to support the provision for the restoration of land fill sites balance amounting to R5 331 975 disclosed which is required by the Standards of Generally Recognised Accounting Practice, GRAP, 19, *Provisions, contingent liabilities and contingent assets* and GRAP 17 - *Property plant and equipment* and GRAP 3 - *Accounting policies, changes in accounting estimates and errors*. The lack of information did not permit the application of alternate audit procedures and consequently the impact on provisions and property, plant and equipment as disclosed in the financial statements could not be determined. Further, the impact on prior years accumulated surplus in terms of the Standards of Generally Recognised Accounting Practice, GRAP, 3, *Accounting policies, changes in accounting estimates and errors* too could not be determined. Consequently, I was unable to satisfy myself as to the valuation and allocation of the amount disclosed in the financial statements.

Cash Flow Statement

16. The cash flow statements of the municipality include 'effect of exchange rate movement on cash balances' amounting to R68 606 953. No supporting documents have been made available to substantiate this adjustment. In the absence of such information, I am unable to determine the accuracy of the information provided in the cash flow statement. Furthermore, the amount included under cash flow from operating activities for grants, is understated by R116 353 593, which relates to the actual amounts received from the grants during the year under review.

Operating leases

17. The municipality has not disclosed separately details relating to its operating leases as required by the Standards of Generally Recognised Accounting Practice, GRAP 13: *Leases*. The lease expense recognised was based on lease payments, and no straight-lining was performed. Consequently, I was unable to determine the accuracy of the amount disclosed in note 25 amounting to R4 466 665.

Accumulated surplus

18. There is an unexplained difference of R68 597 266 between the surplus for year in the statement of financial performance and amount transferred to the accumulated surplus in the statement of changes in net assets.

Unauthorised expenditure

19. Unauthorised expenditure to the amount of R83 710 000 was incurred due to an overspending of the total amount appropriated for a vote in the approved budget. The unauthorised expenditure was not disclosed in the financial statements as required by section 125(2) (d) (i) of the MFMA.

Basis for disclaimer

20. Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements.

Emphasis of matter

I draw attention to the matters below. My opinion is not modified in respect of these matters:

Restatement of corresponding figures

21. Corresponding figures as disclosed in note 12 June 2009 have been restated as a result of errors discovered during 2009/10 in the annual financial statements of the municipality, for the year ended 30 June 2009.

Fruitless and wasteful expenditure

22. Fruitless and wasteful expenditure as disclosed in note 43 amounting to R386 585 was incurred due to salary payments to employees who were initially suspended but reinstated with full pay from the date of suspension.

Irregular expenditure

23. Irregular expenditure as disclosed in note 46 to the amount of R1 307 959 was incurred due to expenditure incurred in contravention with the supply chain management regulations.

Additional matters

I draw attention to the matter below. My opinion is not modified in respect of these matters:

Unaudited supplementary schedules

24. The supplementary information set out on pages XXX to XXX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Predetermined objectives

25. Material findings on the report on predetermined objectives, as set out on pages XXX to XXX, are reported below:

Non-compliance with regulatory and reporting requirements

Existence and functioning of a performance audit committee

26. The performance audit committee did not:

- meet at least twice during the financial year
- review the quarterly reports of the internal auditors on their audits of the performance measurements of the municipality
- review the municipality's performance management system and make recommendations in this regard to the council of the municipality submit an auditor's report to the ordinary council regarding the performance management system at least twice during the financial year.

Compliance with laws and regulations

MFMA

Expenditure was incurred in contravention of applicable legislation resulting in unauthorised expenditure

27. Contrary to the requirement of section 1 of the MFMA, the municipality incurred unauthorised expenditure.

Expenditure incurred was made in vain or could have been avoided resulting in fruitless and wasteful expenditure

28. Contrary to the requirement of section 1 of the MFMA, the municipality incurred fruitless and wasteful expenditure.

Expenditure was not paid within the parameters set by the applicable legislation

29. Contrary to section 65(2)(e) of the MFMA the municipality did not pay money owing by the municipality within 30 days of receiving the statement or invoice payments.

The accounting officer did not adhere to his statutory responsibilities

30. Contrary to section 62(1) (d) of the MFMA the accounting officer did not comply with his legislative responsibilities to implement effective, efficient and transparent processes of financial and risk management to prevent and detect unauthorised expenditure and fruitless and wasteful expenditure.

The financial statements were not prepared in accordance with applicable legislation

31. Contrary to section 122(1) of the MFMA the municipality did not prepare financial statements that fairly present its state of affairs as material misstatements were corrected during the audit.

Municipal Systems Act of South Africa, Act no 32 of 2000 (MSA)

32. The municipality did not perform frequent bank reconciliations as required by section 10 of the MSA.

Municipal Structures Act of South Africa, No 117 of 1998

Responsibilities of the district and local municipalities

33. Contrary to section 84(1) of the above act, the local municipalities performed the water function and not the district municipality. No ministerial approval was obtained to deviate from the provisions of the above act.

INTERNAL CONTROL

34. I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives as well as compliance with the MFMA and MSA, but not for the purpose of expressing an opinion on the effectiveness of internal control.

35. The matters reported below are limited to the significant deficiencies regarding the basis for disclaimer of opinion paragraph, the findings on the report on predetermined objectives and the findings on compliance with laws and regulations.

- **Leadership**

Oversight responsibility

The accounting officer does not exercise oversight responsibility over reporting and compliance by management with laws, regulations and internally designed policies and procedures. As a result, non-compliance issues were noted.

- **Financial and performance management**

Quality, reliable annual financial statements

The financial statements and other information to be included in the annual report are not reviewed for completeness and accuracy prior to submission for audit by the chief financial officer.

Adequate systems

Adequate systems, manual or automated controls are not designed or implemented to ensure that the transactions have occurred, are authorised, and are completely and accurately processed pertaining to the accounting system.

- **Governance**

Risk identification

Internal controls are not selected and developed to prevent/detect and correct material misstatements in financial reporting and reporting on predetermined objectives.

Fraud prevention

No fraud prevention plan was in place, as a result no evidence the municipality has specific measures for preventing and detecting fraud as required by ISA 240 - The Auditor's Responsibility to Consider Fraud in an Audit of Financial Statements.

Auditor-General

Polokwane

30 November 2010



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SOUTH AFRICA

Auditing to build public confidence